Homework due Tuesday 10/28

1. Get to know your local business and/or parents (if it’s a local business you can have a group of 3, if a parent- up to 2 students for one parent
   1. Interview a businessperson (or your parents), ask them how they set their prices. Discuss with them what they think the impact would be of a 10% price increase or a 10% price decrease on one or more of their products would be on their total revenue (just revenue—we are not deducting for the costs in the item). Remember total revenue= price x quantity. (a 10% decrease in price together with a 10% increase in quantity-> revenue neutral)
   2. Discuss with the business owner how s/he thinks the following list of issues would affect their sales (very strongly, strongly, average, not much, a lot), if possible explain the reasoning
      1. Changes in general income amongst the population that buys or is likely to buy their product

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* + 1. Changes in Asset wealth- the Wealth effect – (stock market and other asset pricing)- When assets are going up in value to people tend to buy more of the “product”
    2. Pressure from competitors- is this a “generic-like” product or is it more ‘unique”. If it is unique, explain
    3. How do “substitute” goods affect the price of your “product”
    4. Does the business person consider their product a luxury or necessity. Explain
    5. What products are complements to your product and how does the owner perceive the impact of price changes in the complementary good on his/her good

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* + 1. To what extent does the business price discriminate? Is it possible for the business to charge one price to one group of customers and a different price to another. What stops them from getting more $$ from customers who may be willing to pay a higher price.
    2. How easy is it for the business owner to increase supply if the market seems to be “hot” for this good. Can they change the supply, overnight, in several days, weeks or does it take months